

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D. C. 20500

WILLIAM A. NISKANEN
WILLIAM BOOLE

November 5, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: William A. Niskanen *WAN*

SUBJECT: The 1985 Economic Report

A summary outline of the 1985 Economic Report is attached. The CEA started work on the Report in September, and first drafts are expected to be completed by Thanksgiving.

We would value your suggestions about how to strengthen this material in order to avoid any missed opportunities during the next several critical months.

Attachment

SUMMARY OUTLINE OF THE 1985 ECONOMIC REPORT

Economic Message of the President

CHAPTER 1. ECONOMIC POLICY FOR GROWTH AND STABILITY

A. The Reagan Record

1. Inherited Conditions
2. The President's Recovery Program
3. Review of 1981-1984 Economic Conditions
4. Special Conditions

B. An Economic Policy for Sustained Growth of Stability

1. Policies to Increase Economic Growth
2. Policies to Increase Economic Stability

C. The Economic Outlook for 1985-1990

1. Outlook for 1985
2. Outlook for 1986-1990
3. Humphrey-Hawkins Act Requirements

CHAPTER 2. TOWARD A SUSTAINABLE FISCAL POLICY

A. The Effects of the Economy on the Budget

1. The Projected Budget
2. Effect of Alternative Real GNP Growth Rates
3. Effect of Alternative Inflation Rates
4. Effect of Alternative Interest Rates

- B. The Effects of the Budget on the Economy
 - 1. Effects of Reduced Spending Growth
 - 2. Effects of Alternative Tax Measures
 - 3. The Concept of a Sustainable Budget
 - 4. The Case for Reducing the Deficit by Spending Restraint
- C. The Political Problems of Reducing Spending Growth and the Deficit
 - 1. Budget Concepts
 - 2. The Budget Process
 - 3. The Line Item Veto
 - 4. The Balanced Budget/Spending Limit Amendment

CHAPTER 3. THE UNITED STATES IN THE WORLD ECONOMY

- A. Relation of U.S. Domestic Conditions and Foreign Balance
 - 1. The Trade Deficit
 - 2. The Capital Account Surplus
 - 3. Policy Effects on Exchange Rates and the Trade Balance
- B. Considerations Affecting U.S. Trade Policy
 - 1. The General Case for Free Trade
 - 2. The Special Problems of Foreign Subsidies and Trade Restraints
 - 3. The Special Problems of the Developing Countries
 - 4. Recent Developments in U.S. Trade Policy
 - 5. The Importance of Multilateral Agreements

-3-

C. Considerations Affecting U.S. International
Financial Policy

1. The General Case for Free Financial markets
2. The Special Problem of the Debtor Countries
3. Recent Developments in International Financial
Policy
4. Proposals for a New International Financial System

CHAPTER 4. THE ECONOMICS OF HEALTH CARE

A. Changes in Health Status

1. Health Status by Age, Race, and Sex

B. Medical Care Use and Expenditure

1. The Demand for Medical Care
2. The Supply of Medical Care
3. Expenditures for Medical Care

C. The Relation between Health Status and Medical Care

1. Summary of Empirical Evidence
2. Effects of Alternative Means to Provide Medical
Care

D. Government Role in the Medical Care System

1. Insurance Programs
2. Direct Provision
3. Research
4. Manpower
5. Regulation

-4-

E. Analysis of Current Problems

1. Effect of Insurance on Demand
2. The Cost Problem
3. Other Problems

F. Changing the Government Role

1. The DRG System for Hospital Reimbursement
2. Measures to Increase Competition
3. State Rate Regulation
4. Policies Affecting Private Employers

CHAPTER 5. ECONOMIC STATUS OF THE ELDERLY

A. Demographics and Economic Status

1. Demographic Trends
2. Income and Wealth Status

B. Sources of Financial Support for the Elderly

1. Earnings
2. Pensions and Private Savings
3. Private Intergenerational Transfers
4. Public Intergenerational Transfers

C. Major Policy Issues

1. Taxation
2. Regulation of Private Pensions
3. Measures to Increase Work Opportunities
4. Social Security

-5-

CHAPTER 6. THE ORGANIZATION OF AMERICAN INDUSTRY

A. Changes in the Organization of American Industry

1. The Size Distribution of Firms
2. Legal Form
3. Mergers, Acquisitions, and Spinoffs
4. New Firm Formation and Bankruptcies

B. Corporate Governance and Control

1. The Economic Role of Contests for Corporate Control
2. Efficiency Inducing Incentives
3. Other Incentives
4. Empirical Evidence

C. Government Policies Affecting the Organization of American Industry

1. Antitrust
2. Role of the Regulation of Financial Firms
3. Securities Regulation
4. State Corporate Chartering Laws
5. Taxes
6. Recent Developments